

✓ Illinois. Legislative Audit Commission.

Department of Corrections, Joliet

✓ Penitentiary (audit report.)

64992

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This review covers an audit report for the Joliet Penitentiary for the TWO YEARS ENDED JUNE 30, 1972. Information concerning the cost of the last three audits of this institution is as follows:

Audit Performed By	Report at June 30	Cost of Audit		
		Total Amount Paid	Paid for Accountants' Time	Other Expenses Paid
Peat, Marwick, Mitchell & Co.	1969	\$ 16,500	\$ 13,612	\$ 2,888
Peat, Marwick, Mitchell & Co.	1970	23,300	20,695	2,605
Peat, Marwick, Mitchell & Co.	1972	21,500	18,875	2,625

The 1970 audit report for the Joliet Penitentiary was summarized in Review No. 1400, considered by the Legislative Audit Commission in December, 1971.

The Auditor General states:

The opinion expressed by the auditors on the financial statements examined in this audit is in three parts:

1. The opinion covering the General Revenue Fund and the Officers' Fund is qualified due to a limitation in audit scope on inventories.

2. No opinion is expressed for the Working Capital Revolving Fund and the Inmates' Commissary Fund due to: (a) A limitation in audit scope on inventories; (b) Inability to determine the net realizable value of property, plant and equipment of discontinued operations; (c) Exclusion of an undetermined amount of inventoriable labor and manufacturing expenses from the inventories at the beginning of the audit period.

3. The opinion covering the Inmates' Trust Fund and the Inmates' Benefit Fund is unqualified.

The number of persons employed by the Joliet Penitentiary at each of the following dates was:

June 30, 1969 - 718

June 30, 1970 - 878

June 30, 1972 - 905

According to the audit report the average expense per inmate per year at this institution was \$3,707 for the two-year period ended June 30, 1972. The comparable total for the year ended June 30, 1970 was \$2,378.

Expenditures From Appropriations

The General Assembly appropriated a total of \$12,137,800 from the State's General Revenue Fund to the Joliet Penitentiary for the year ended June 30, 1972. The table shown on page 2 of this Review summarizes these appropriations and the expenditures therefrom. The table also includes a comparison of expenditures from appropriations to the Joliet Penitentiary for each of the two years under review.

Warrants issued during the lapse period (three months ended September 30, 1972) against appropriations to the Dwight Reformatory are summarized below:

	Total	Lapse Period	
	Spent Entire Fiscal Year	Amount Spent	Per Cent of Total for Fiscal Year
Contractual Services	\$ 310,606	\$ 39,606	12.8%
Telecommunications	60,780	10,063	16.6%
Travel	13,339	717	5.4%
Printing	16,270	4,966	30.5%
Commodities	2,884,316	259,536	9.0%
Equipment	94,062	18,755	19.9%
Operate automotive equipment	36,254	10,841	29.9%

STATE OF ILLINOIS
Springfield

Legislative Audit Commission

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I. Summary of Appropriations, 1971 - 1972 Fiscal Year

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Lapsed</u>
Personal services	\$ 7,522,500	\$ 7,520,145	\$ 2,355
Inmate compensation	51,000	25,980	25,020
Retirement	412,400	412,134	266
Social security	206,900	209,307	(2,407)*
Contractual services	366,000	310,606	55,394
Telecommunications	61,400	60,780	620
Travel	16,000	13,339	2,661
Printing	16,500	16,270	230
Commodities	3,145,500	2,884,316	261,184
Equipment	94,700	94,062	638
Operate automotive equipment	39,000	36,254	2,746
Travel and allowance - paroled and discharged prisoners	80,900	80,340	560
Repairs and maintenance	125,000	4,570	120,430
Total	<u>\$ 12,137,800</u>	<u>\$ 11,668,103</u>	<u>\$ 469,697</u>

* Represents an expenditure from fiscal 1973 appropriations.

II. Comparison of Expenditures From Appropriations

	<u>Year Ended June 30</u>	
	<u>1972</u>	<u>1971</u>
Personal services	\$ 7,520,145	\$ 6,910,094
Inmate compensation	25,980	-0-
Retirement	412,134	437,815
Social security	209,307	177,184
Contractual services	310,606	235,495
Telecommunications	60,780	48,589
Travel	13,339	9,156
Printing	16,270	16,870
Commodities	2,884,316	2,599,228
Equipment	94,062	136,220
Operate automotive equipment	36,254	26,258
Travel & allowance - paroled & discharged prisoners	80,340	84,108
Repairs and maintenance	4,570	77,134
Total expenditures	<u>\$ 11,668,103</u>	<u>\$ 10,758,151</u>

Inventories

Following is a comparative summary of non-institutional inventories at the Joliet Penitentiary as of June 30, 1970 and 1972.

Comparative Summary of Inventories

	<u>At June 30</u>	
	<u>1972</u>	<u>1970</u>
General stores -		
Food supplies	\$ 241,362	\$ 204,055
Wearing apparel	141,629	166,459
Other	134,268	94,871
Total general stores	<u>517,259</u>	<u>465,385</u>
Mechanical stores	<u>407,317</u>	<u>343,372</u>
Farm stock and supplies -		
Farm stock held for slaughter	79,880	64,090
Forage and farm supplies	70,503	69,665
Total farm stock and supplies	<u>150,383</u>	<u>133,755</u>
Total inventory	<u>\$ 1,074,959</u>	<u>\$ 942,512</u>

The audit report includes the following comments with reference to variations in these inventories as between the dates shown:

The increase in food supplies and farm stock held for slaughter resulted, at least in part, from the institution's plan to phase out the hog and dairy farms. The mechanical stores inventory increase was influenced by the increased amount of repair and maintenance undertaken by the institution which resulted in a larger inventory of small parts and supplies.

Property and Equipment

The following table summarizes changes in non-industrial property and equipment at the Joliet Penitentiary during the two-year period ended June 30, 1972.

<u>Summary of Property and Equipment</u>				
<u>General Revenue Fund</u>				
	Balance, July 1, 1970	Additions	Deductions	Balance, June 30, 1972
Land	\$ 520,289	\$ -0-	\$ -0-	\$ 520,289
Structures	11,654,376	1,357,684	100,000	12,912,060
Improvements of existing structures	33,012	-0-	-0-	33,012
Improvements of sites	482,346	-0-	-0-	482,346
Tunnels and outside service facilities	1,255,028	-0-	-0-	1,255,028
Construction work in progress	1,600,593	951,049	1,357,684	1,193,958
Machinery and equipment	1,014,119	108,255	67,029	1,055,345
Household equipment	284,933	75,746	38,262	322,417
Office furniture and equipment	220,281	72,600	27,696	265,185
Passenger automobiles	17,542	8,803	2,890	23,455
Other motor vehicles	150,815	42,260	29,643	163,432
Scientific instruments and apparatus	173,913	10,812	3,052	181,673
Livestock	19,195	4,550	3,668	20,077
Library books, maps, etc.	32,991	1,644	28,294	6,341
All other equipment	347,820	38,790	7,948	378,662
Total	\$ 17,807,253	\$ 2,672,193	\$ 1,666,166	\$ 18,813,280

Prison Industries

Prison industries at the Joliet Penitentiary produce the following items for sale to Illinois State agencies and political subdivisions: furniture, sheet metal, soap, garments, bindery service, textiles and shoes. The industries at this institution, as at other institutions under the jurisdiction of the Department of Corrections, are financed through a revolving fund in the State treasury known as the Working Capital Revolving Fund, which is subject to appropriation by the General Assembly. The appropriations from this fund are made in a lump sum to the Department of Corrections and the General Office allocates the amounts required for the various items to the branches of the State Penitentiary.

The table shown on page 4 of this Review summarizes the allotments from this fund to the Joliet Penitentiary during the year ended June 30, 1970. The table also includes comparative balance sheets and statements of net income for each of the two years under review.

The audit report under review includes the following comments pertaining to prison industries operations during the two year period ended June 30, 1972:

- a. The decline in operating results in the Working Capital Revolving Fund was attributable to several factors, including increased manufacturing expenses (as a percentage of sales), increased salaries and related fringe

Working Capital Revolving Fund - Prison Industries

I. Expenditures From Appropriations, 1971 - 1972 Fiscal Year

	<u>Allotment</u>	<u>Expenditures</u>	<u>Lapsed</u>
Personal services	\$ 640,000	\$ 614,011	\$ 25,989
Student and inmate compensation	216,000	187,277	28,723
Retirement	40,000	38,541	1,459
Social security	15,000	8,082	6,918
Contractual services	300,000	252,063	47,937
Telecommunications	21,000	14,621	6,379
Travel	10,000	6,124	3,876
Printing	12,000	7,199	4,801
Commodities	1,824,000	1,160,255	663,745
Equipment	150,000	43,025	106,975
Operate automotive equipment	12,000	5,355	6,645
Total	<u>\$ 3,240,000</u>	<u>\$ 2,336,553</u>	<u>\$ 903,447</u>

Comparative Balance Sheets at June 30

<u>ASSETS</u>	<u>1972</u>	<u>1970</u>
Balance in State appropriations	\$ 213,139	\$ 518,511
Accounts receivable	255,943	336,657
Due from other funds	216,966	105,622
Inventories	2,121,275	2,519,607
Deferred charges	103,831	52,747
Fixed assets - less accumulated depreciation	861,901	1,027,585
Total assets	<u>\$ 3,773,055</u>	<u>\$ 4,560,729</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 138,771	\$ 154,408
Due to other funds	8,607	17,413
Fund balances -		
Reserve for encumbrances	65,761	346,690
Invested in inventories, fixed assets, etc.	3,559,916	4,042,218
Total liabilities	<u>\$ 3,773,055</u>	<u>\$ 4,560,729</u>

III. Statement of Net Income

	<u>Year Ended June 30</u>	
	<u>1972</u>	<u>1971</u>
Sales	\$ 3,581,196	\$ 2,137,850
Cost of goods sold	3,879,606	2,021,390
Gross profit (loss)	(298,410)	116,460
Other expenses not allocated to individual industries -		
Office civilian salaries	382,409	157,659
Retirement	68,685	32,675
Social security	16,522	5,788
Office inmate salaries	53,131	24,810
Guard salaries	26,033	19,723
Office supplies and miscellaneous (net)	15,227	9,028
Repair and maintenance	10,931	9,792
Telephone and telegraph	15,579	2,890
Travel expense	9,845	5,703
Depreciation	35,669	16,787
All other	26,737	4,739
Total other expenses	<u>660,768</u>	<u>289,594</u>
	(959,178)	(173,134)
Extraordinary item - discontinuance of certain manufacturing operations	191,310	-0-
Net loss	<u>\$ (1,150,488)</u>	<u>\$ (173,134)</u>

costs associated with the termination of the textile and shoe industries, including the \$191,510 valuation adjustment of the remaining inventories of those industries at June 30, 1972.

b. The decline in soap industry sales of about \$75,000 was due, in large part, to the elimination of one major product from its product line.

c. The garment industry's sales decline of some \$188,000 was significantly affected by the fact that the industry no longer provides garments to the Department of Mental Health.

d. Textile and shoe industries had reduced sales of about \$109,000 as compared to prior levels. Both industries ceased operations during the period and did not have sales for the full period; in addition, the shoe industry lost the Department of Mental Health as a customer.

In his letter transmitting the report under review to the Legislative Audit Commission, the Auditor General includes the following comments regarding the prison industries at Joliet Penitentiary:

Starting with the 1969 audit, the audit reports have shown that funds appropriated from the Working Capital Revolving Fund (prison industries) to pay utility costs have also been used to pay the utility costs applicable to the General Revenue Fund (the total penitentiary except prison industries). The cumulative amount of such expenditures from the wrong fund through June 30, 1972 was \$223,225. (\$109,919 during the audit period)

Based on usage during fiscal 1972, the different industry raw material inventories on hand at June 30, 1971 were sufficient for 8 to 639 months. Two of the industries were discontinued during the audit period: textile (10 months supply) and shoe (18 months supply).

Funds Administered By The Warden

The funds of a trust nature administered by the Warden at the Joliet Penitentiary are as follows: Inmates' Trust Fund, Inmates' Benefit Fund, Inmates' Commissary Fund, and the Officers' Fund.

Inmates' Funds

The table shown on pages 6 and 7 of this Review presents for each of these funds maintained for inmates comparative balance sheets at June 30, 1970 and 1972. The table also includes a summary of transaction in each fund for the period under review. It may be noted that only a very small amount of information is available in the audit report with regard to transactions of the Inmates' Trust Fund.

The Inmates' Trust Fund at the Joliet Penitentiary, as at other institutions under the jurisdiction of the Department of Corrections, consists of money carried by convicts on their arrival at the prison, money contributed for their benefit by friends and relatives and money earned by them for work performed at the prison. Inmates with account balances may make purchases from the inmates' commissary or from approved outside sources. The inmate receives his account balance upon discharge. In case of death, balances undistributed two years after the inmate's death are transferred to the Inmates' Benefit Fund in accordance with existing statutes.

The Inmates' Commissary Fund, operated by the commissary officer and a number of inmates, sells cigarettes, candy, toiletries, novelties, articles of food, clothing and similar items to inmates. Sales are recorded on vouchers which are then posted to the inmates' trust accounts maintained by the Inmates' Trust Fund. Profits on operations are periodically transferred, as needed to the Inmates' Benefit Fund.

The Inmates' Benefit Fund is financed principally by transfers of accumu-

Funds Administered By The Warden

I. Inmates' Trust Fund
Comparative Balance Sheets

	At June 30	
	1972	1970
<u>ASSETS</u>		
Cash on hand	\$ 9,215	\$ -0-
Cash in bank - time deposits:		
First National Bank of Joliet	8,504	8,504
Joliet Federal Savings and Loan Association	7,000	7,000
Plainfield National Bank	2,000	2,000
Cash in bank - demand deposit:		
Louis Joliet Bank	21,471	56,210
Community Bank of Joliet	4,000	4,000
Farmers and Merchants Bank	4,000	4,000
First National Bank of Lockport	10,000	10,000
Louis Joliet Bank	10,001	10,001
National Bank of Joliet	10,000	10,000
Peoples Savings and Loan Association	10,000	10,000
State Bank of Breese	2,000	2,000
Union National Bank and Trust Company	10,000	10,000
U. S. Government savings bonds, at cost	42,500	42,500
Accounts receivable	1,102	994
Due from other funds	12,971	18,234
Total assets	\$ 166,764	\$ 197,443
<u>LIABILITIES</u>		
Due to other funds	\$ 4,536	\$ 12,496
Fund balances - held in trust	162,228	184,947
Total liabilities	\$ 166,764	\$ 197,443

Summary of Transactions

	Year Ended June 30	
	1972	1970
Beginning fund balance	\$ 184,947	\$ 176,578
Additions - No detail given		
Deductions - No detail given		
Net increase (decrease) in inmates' deposits	(22,719)	8,369
Ending fund balance	\$ 162,228	\$ 184,947

II. Inmates' Commissary Fund
Comparative Balance Sheets

	At June 30	
	1972	1970
<u>ASSETS</u>		
Cash on hand	\$ 127	\$ 1,084
Cash in bank - demand deposits:		
First National Bank of Joliet	5,648	25,746
Louis Joliet Bank	14,889	35,797
Certificates of deposit - State Bank of Breese	5,000	5,000
Accounts receivable	221	191
Due from other funds	3,618	11,502
Inventories	125,460	81,417
Total assets	\$ 154,963	\$ 160,737
<u>LIABILITIES</u>		
Accounts payable	\$ 21,946	\$ 13,811
Due to other funds	-0-	822
Fund balances - held in trust	133,017	146,104
Total liabilities	\$ 154,963	\$ 160,737

Summary of Transactions

	<u>Year Ended June 30</u>	
	<u>1972</u>	<u>1970</u>
Beginning fund balance	\$ 146,104	\$ 115,415
Additions -		
Sales	1,254,349	635,523
Interest income	544	509
Miscellaneous income	70	54
Total to account for	<u>1,401,067</u>	<u>751,501</u>
Deductions -		
Cost of goods sold	1,053,971	515,433
Transfer to Inmates' Benefit Fund	185,000	75,000
Inmates salaries	14,297	6,323
Supplies	12,860	6,037
Equipment purchased	1,922	2,186
Miscellaneous expense	-0-	418
Total deductions	<u>1,268,050</u>	<u>605,397</u>
Ending fund balance	\$ <u>133,017</u>	\$ <u>146,104</u>

III. Inmates' Benefit Fund Comparative Balance Sheets

	<u>At June 30</u>	
	<u>1972</u>	<u>1970</u>
<u>ASSETS</u>		
Cash on hand	\$ 3,000	\$ 3,000
Cash in bank - demand deposits:		
Harris Trust and Savings Bank	6,111	10,264
Plainfield National Bank	302	7,768
Union National Bank and Trust Company	165	2,967
Accounts receivable	18,616	11,011
Due from other funds	4,997	1,890
Total assets	\$ <u>33,191</u>	\$ <u>36,900</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 6,617	\$ 15,671
Due to other funds	348	-0-
Accrued parole and discharge advances	-0-	1,926
Fund balances, held in trust	26,226	19,303
Total liabilities	\$ <u>33,191</u>	\$ <u>36,900</u>

Summary of Transactions

	<u>Year Ended June 30</u>	
	<u>1972</u>	<u>1970</u>
Beginning fund balance	\$ 19,303	\$ 29,000
Additions -		
Transfer from Inmates' Commissary Fund	185,000	75,000
Transfer from Officers' Fund	15,501	10,286
All other	22,716	16,050
Total to account for	<u>242,520</u>	<u>130,390</u>
Deductions -		
Employees' salaries	45,617	21,610
School expense	65,749	35,898
Inmates' wages	35,162	11,949
Motion picture, radio and TV expense	19,266	5,111
TV college	18,544	8,698
Athletic and equipment expense	19,573	9,967
Holiday celebration and religious expense	10,409	7,947
All other	10,276	5,487
Total deductions	<u>214,546</u>	<u>116,666</u>
Ending fund balance	\$ <u>27,974</u>	\$ <u>13,724</u>

lated profits of the Inmates' Commissary Fund. This fund also receives interest earned by the Inmates' Trust Fund.

Officers' Fund

The following table presents comparative balance sheets for the Officers' Fund at the Joliet Penitentiary as of June 30, 1970 and 1972. The table also includes a summary of transactions in this fund during each of the two fiscal periods then ended.

<u>Officers' Fund</u>			
<u>Comparative Balance Sheets at June 30</u>			
	<u>ASSETS</u>	<u>1972</u>	<u>1970</u>
Cash on hand		\$ 5,741	\$ 3,343
Cash in bank - demand deposit:			
Louis Joliet Bank		21,530	21,126
Cash in bank - time deposits:			
Chicago City Bank and Trust Company		5,000	5,000
First National Bank of Hinsdale		7,000	7,000
Joliet Federal Savings and Loan Association		10,000	10,000
Certificates of deposit -			
Farmers and Merchants Bank		9,000	9,000
Heritage Bank		10,000	-0-
Louis Joliet Bank		10,000	10,000
Plainfield National Bank		10,000	10,000
Savings Bank of Breese		1,000	1,000
Accounts receivable		5,870	4,505
Inventories		15,387	15,117
Total assets		<u>\$ 110,528</u>	<u>\$ 96,091</u>
	<u>LIABILITIES</u>		
Accounts payable		\$ 5,686	\$ 5,739
Due to other funds		1,836	896
Fund balances - held in trust		103,006	89,456
Total liabilities		<u>\$ 110,528</u>	<u>\$ 96,091</u>

Summary of Transactions

	<u>Year Ended June 30</u>	
	<u>1972</u>	<u>1970</u>
Beginning fund balance	\$ 89,456	\$ 79,994
Additions -		
Sales	372,660	171,504
Net income from barber shop	347	-0-
Interest income	5,179	2,745
Miscellaneous	9,812	4,037
Total to account for	<u>477,454</u>	<u>258,280</u>
Deductions -		
Cost of goods sold	327,126	141,059
Transfer to Inmates' Benefit Fund	15,501	10,280
Inmate salaries	6,150	2,206
Supplies	2,107	1,843
Net loss from barber shop	-0-	663
Other expenditures (no detail given)	23,564	12,773
Total deductions	<u>374,448</u>	<u>168,824</u>
Ending fund balance	<u>\$ 103,006</u>	<u>\$ 89,456</u>

The accountants state, "The gross profit margin declined from 17.8% to 12.2% during the period due to increasing prices of merchandise purchased and to a series

of burglaries during which there were heavy inventory losses."

The Officers' Fund operates the lobby commissary and the barber, tailor and shoe shops. Cigarettes, candy, ice cream and certain drug items are sold in the commissary to employees and visitors. The sales are handled by an officer and several inmates stationed in the lobby. Payments for tailor and shoe shop services and employee purchases of barber shop cards are handled in the lobby. An officer is responsible for ordering and receiving merchandise and taking a monthly physical inventory. The net income from these activities, after transfer of the profits on sales for inmates, is expended for the benefit and entertainment of employees.

Other Findings

The accountants include the following comments in the audit report under a heading of "other findings". In each instance, these are followed by comments submitted by the Director of Corrections in a letter to the Legislative Audit Commission dated March 4, 1974.

Accountants' comments: Encumbrances of the General Revenue Fund had not been reconciled to Department of Finance figures.

Director's response: The Department of Finance 'unliquidated obligations report' is now being sent to all institutions on a monthly basis. The institution can now reconcile to Department of Finance encumbrance figures.

Accountants' comments: Internal audit reports on the trust funds are not available on a timely basis.

Director's response: Remedial action has been taken on this and reports are now received by the institution on a timely basis.

Accountants' comments: The institution has not been notified on a timely basis when fixed asset projects of the General Revenue Fund have been completed.

Director's response: The General Office has established a regular procedure in which capital project expenditures are transferred to the institution ledgers after the close of each fiscal year.

Accountants' Recommendations

Other than one prior recommendation not repeated, the recommendations and related comments included by the accountants in the audit report under review read as follows. The recommendations are classified below on the basis of information received from Mr. Allyn R. Sielaff, Director of Corrections, in a letter dated February 1, 1974.

Recommendations Accepted

4. To avoid possible duplicate production and billing delays, we repeat our recommendation that materials not be issued without a formal purchase order number to which requisitions can be charged.

Accountants' comments: As in our prior examination, we noted that the General Office occasionally initiates production by the various industries through a phone call or letter directly to the applicable industry rather than via issuance of a formal purchase order. Under this procedure, duplicate production could result when the General Office later submits the confirming formal purchase order. The present verbal or letter authorization procedure can, and does, cause delays in billing. We again noted instances where billings were delayed several months after the order had been shipped pending receipt of the formal purchase order which is required before the institution can bill the customer. These shipments are recorded as accrued accounts

Recommendations Accepted - continued

receivable ~~untill~~ *until billed*

Director's response: This statement is true in some cases where production has begun for the purpose of manufacturing an item for stock. One of the criticisms of correctional industries is that it cannot meet prompt delivery schedules. Therefore, in some cases we believe it necessary to manufacture items for the purpose of building a finished goods inventory. We do agree that a formal written order should emanate from the office of Superintendent of Industries of an institution authorizing the production of any item. (Such authorization should not necessarily be a purchase order.)

5. Fixed asset balances should be reconciled to property control records on a timely basis.

Accountants' comments: Fixed asset balances had not been reconciled with available property control records at any time during the two year period subsequent to June 30, 1970.

Director's response: The institution has established a position of Property Control Clerk. In the past this work was done by inmate clerks.

6. We recommend that all fixed assets be tagged promptly upon receipt by the institution.

Accountants' comments: Certain fixed assets were not tagged for identification or control.

Director's response: The Property Control Clerk referred to in recommendation 5 has instructions to have all equipment tagged.

7. We have previously indicated the need for increased efforts to minimize inventory investment and repeat this recommendation. Since the scope of our audit did not include inventories, we are unable to comment on the specific steps taken, and effectiveness thereof, by institution management to minimize excessive inventory quantities.

Accountants' comments: Inventories declined approximately 16% during the two years ended June 30, 1972, of which \$191,310, or about one-half of such decline, related to the extraordinary writedown of shoe and textile inventories. Industry sales during the two years ended June 30, 1972 also decreased some 16% from prior period levels and, accordingly, the reduction of possible excess inventory investment levels, mentioned earlier, has not changed appreciably.

Director's response: Currently increased efforts are being extended to increase sales and production within all of the Department's correctional industry programs. With an increase in production, raw material inventories should be brought into line.

10. Appropriations and appropriation transfers for a current fiscal year should be requested on a timely basis in order to cover expenses of that fiscal year.

Accountants' comments: The General Revenue Fund over obligated fiscal 1972 appropriations for social security taxes by \$2,407 which amount was subsequently paid from fiscal 1973 appropriations.

Director's response: Every effort is made to assure timely appropriation transfers to cover expenses of the applicable fiscal year. The situation which prompted this recommendation hopefully would not recur. This particular situation dealt with social security payments only.

12. We believe these investments should be reviewed periodically to insure that the funds receive maximum return on the invested monies. In some cases, consolidation of accounts may be desirable; for instance, long-term investments, which yield a higher percentage, might be considered. It may be feasible to have the investment of these funds han-

dled by a state agency specializing in investing of funds.

Accountants' comments: These trust funds have monies invested in savings accounts and certificates of deposit. During the two years under review, there was little or no activity in the investments.

Director's response: A review of inmate trust fund procedures has recently been completed. Some decisions relative to the handling of inmates' funds is expected within the very near future. As Officers' Fund investments mature, a review will be made so as to insure that maximum safe interest rates are being received.

13. We recommend that additional effort be made to control inventory stock levels not only to reduce the potential loss due to theft, but also to release funds for more productive use in other areas.

Accountants' comments: At June 30, 1972, the fund's inventory amounted to \$125,460, or a 54% increase from the June 30, 1970 value of \$81,417. Considering the decline in sales and in inmate population over the period, the June 30, 1972 investment in inventory may well be excessive.

Director's response: The commissary takes advantage of sales promotions on stock items whenever possible. This results in temporary high inventories, but reduces the unit costs. However, greater attention will be directed toward the maintenance of proper inventory levels.

14. We recommend that the guidelines established by the Bureau of the Budget, Circular 6, be used to govern the capitalization of projects.

Accountants' comments: We noted differences of opinion over which expenditures should be capitalized, and which items should be expensed, particularly regarding expenditures for projects completed by the institution. For example, a floor of the main administration building was remodeled by personnel from the institution. This project was determined to be an expense upon its completion. If the project had been provided for and paid for by the Department of Corrections General Office, the project would have been capitalized and recorded as such.

Director's response: The institution accepts the recommendation of the auditors and will capitalize the 4th floor improvements accomplished by institution personnel.

15. We recommend that general ledger be maintained on a current basis and financial statements and other financial and operating data should be provided appropriate prison management personnel promptly to assist in management of the institution.

Accountants' comments: General ledger postings are not performed on a timely basis. In fact, delays ranged up to 6 months after month-end. Such circumstances preclude preparation of meaningful financial statements and use of financial information for operating and control purposes.

Director's response: These late postings occurred during periods of personnel shortages. Help has recently been supplied by the General Office and the work is almost current.

16. We recommend that cash receipts be forwarded to the State Treasurer daily to both improve controls and safekeeping requirements and permit earlier use of the funds by the State.

Accountants' comments: Cash receipts are remitted to the Treasurer every two or three days under present procedures.

Director's response: Remittances are now being made daily.

17. The Inmates' Benefit Fund petty cash fund should be subjected to tighter controls.

Accountants' comments: During our examination, we noted that release slips which support petty cash fund expenditures were not filed in the

Recommendations Accepted - continued

cash box; further, the cash box is not kept locked during operating hours and is accessible to all employees. Release slips should be filed in the cash box until the fund is replenished for the related expenditures and the box should be locked at all times. A responsible official, other than the custodian, should count and balance the fund periodically on a surprise basis.

Director's response: The cash box is kept in the safe when not in use by the Fund Custodian. On an average, cash is counted four times a day. Reimbursement of the account involves two people. A further control is being implemented; a weekly cash count will be made by an employee not involved with the fund.

18. Check signers for the Trust Funds should review and cancel supporting documents at the time of signing checks.

Accountants' comments: During our examination we noted that when disbursement checks are signed, neither of the check signers review the supporting documents (these documents do not now accompany the check) and further, supporting documents are not cancelled after payment.

Director's response: A new procedure has been initiated whereby supporting documents are spot checked and cancelled by the co-signer of trust fund checks.

19. Cash receipts of the trust fund should be deposited daily.

Accountants' comments: Deposits of trust fund receipts presently are made about twice a week, at least partly because of the time of the two employees involved in traveling to and from the bank. We believe the present level of cash receipts (about \$500 daily) justifies daily cash deposits. We also suggest that deposits be simply dropped at the bank and the receipted deposit ticket mailed to the Trust Fund. Also, the fund might consider using only one employee to deliver deposits.

Director's response: The institution concurs. Deposits are now being made daily.

20. Interfund transactions in the trust funds should be recorded in interfund accounts on the general ledger.

Accountants' comments: In our examination we noted several instances where journal entries were recorded in incorrect accounts, possibly as a result of not maintaining interfund accounts on the trust fund general ledgers. Improved controls and more useful financial data would be achieved by establishing interfund accounts on the general ledgers.

Director's response: Interfund accounts were established subsequent to the audit.

21. Results of fixed assets physical inventory should be completed and reconciled to appropriate records on a more timely basis.

Accountants' comments: The institution does conduct an annual physical inventory of fixed assets to insure that all of its assets are properly recorded and physically accounted for. However, the most recent physical inventory of fixed assets, taken in March, 1972, had not been summarized and appropriate adjustments made as of October 19, 1972.

Director's response: We agree and a new employee has been obtained to replace the inmate help used in the past.

22. The institution could improve and expedite the counting and pricing of the physical inventories.

Accountants' comments: Compilation of quantities, pricing, etc. of

the various inventories at June 30, 1972 was not completed until 4 to 8 weeks after June 30, 1972. A more prompt completion of such work would aid in preparation of accurate financial statements and early identification of items requiring follow-up or corrective action.

Director's response: We concur with the recommendation. Progress was made in the succeeding year and inventories were counted and valued within the following month of the closing.

Recommendations Under Study

2. The Working Capital Revolving Fund and the General Revenue Fund should be responsible for their own respective expenditures.

Accountants' comments: We continue to recommend that the practice of the Working Capital Revolving Fund paying expenses attributable to the General Revenue Fund be discontinued. Each fund should be responsible for its own expenditures and appropriations should be so requested and granted. The Working Capital Revolving Fund is paying for utility costs incurred by the General Revenue Fund. Over the years the situation has resulted in the due to other funds of \$223,225 at June 30, 1972 representing primarily the excess of utility costs paid by the Working Capital Revolving Fund over its share of such costs.

Director's response: We are reviewing this problem. Remedial action will be taken after we have had an opportunity to study the matter on a department-wide basis.

8. The Working Capital Revolving Fund inventory valuations should include all applicable labor costs.

Accountants' comments: To more accurately reflect the results of operations of each of the various industries we continue this recommendation. Upon inquiring we noted that the valuation of the work in process of the Working Capital Revolving Fund inventories did not include all applicable labor costs. Accordingly, the operating results of the individual industries, as reported by the institution, could differ significantly from operating results determined by including all applicable labor costs in the values of both beginning and ending work in process inventories.

Director's response: This refers to the inventory valuation of work in process. During the period covered by this audit, no labor was paid until the item was finished stock. This situation no longer exists. Labor costs will be applied to work in process.

Recommendations Not Accepted

3. More effective control should be established over the securities held by the Inmates' Trust Fund.

Accountants' comments: The fund maintains a property ledger which lists all items held in safekeeping for inmates. To improve accounting controls and strengthen internal control over defalcations, we recommend again that the duties of maintaining the ledger and buying and selling bonds be assigned to different employees and that a third person have the responsibility for making periodic reviews to insure that bonds on hand agree with property ledger balances.

Director's response: The institution feels that present safeguards are adequate in handling inmate securities. Present procedures for cashing bonds require the involvement of 3 people; the inmate, the Chief Clerk and a representative from the bank. When it is necessary to place or retrieve items from personal property jackets, more than one person is involved.

Recommendations Not Accepted - concluded

9. The General Revenue Fund should budget for and charge all fixed asset additions to the proper appropriation.

Accountants' comments: We noted instances wherein expenditures for materials used in institution projects were charged to the commodities appropriation but were then capitalized in the construction in progress account. Such capital expenditures should be budgeted for and charged to a fixed asset or equipment appropriation rather than to other appropriations.

Director's response: This recommendation seems to question our authority for doing major remodeling or maintenance work in an institution. It is a common practice for this Department to utilize both men and materials we have at our facilities to get much needed repairs done. As far as capital expenditures are concerned, we do routinely request appropriations for major capital expenditures. The kind of expenditures reflected in this recommendation deal primarily with repair and remodeling projects that can be done with institutional help. We then capitalize the expenditures to reflect the enhancement of the properties on the institution books.

11. Fixed assets purchased by the trust funds should not be included in the General Revenue Fund accounts.

Accountants' comments: The various trust funds, not the general revenue fund, should be accountable for fixed assets purchased from their fund monies. Fixed assets are purchased and expensed by the various trust funds. Such items are thereafter transferred into the General Revenue Fund and capitalized even though the trust funds retain custody over and use such machines, etc. During the two years ended June 30, 1972, approximately \$10,400 of such items were transferred to and capitalized by the General Revenue Fund; amounts similarly transferred in earlier fiscal periods are not readily determinable.

Director's response: Fixed assets regardless of the source of funds are under the control of the State and are accounted for in the property accounts of the institution. These accounts are reconciled to the monthly tabulation received from the Division of Property Control and to the institution general ledger controlling account. Institution records identify the source of funds for equipment purchased.

Possible Action By This Commission

1. The Legislative Audit Commission might concur in the recommendations reported to have been accepted by the Department of Corrections.

2. With regard to the recommendations under study, the Commission might consider:

- (a) endorsing recommendation 2,
- (b) accepting the Department's position on recommendation 8.

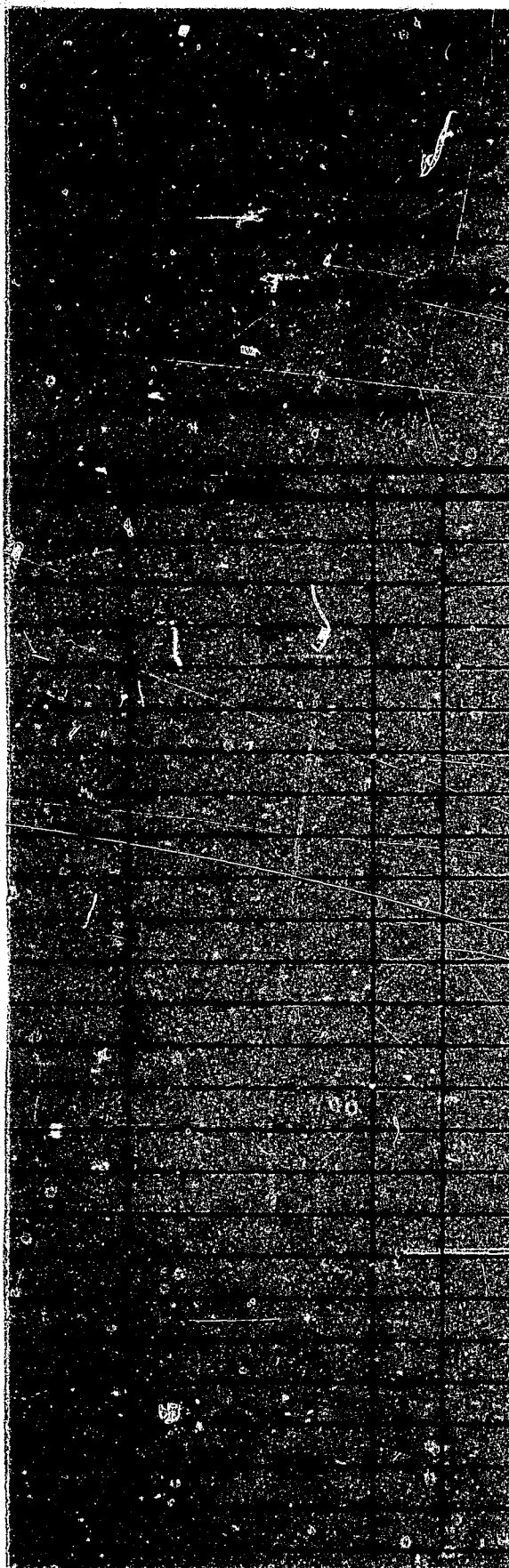
3. With regard to the recommendations classified as not accepted, the Audit Commission might consider the following:

- (a) Endorse the objective of # 3 and urge the Department to do all that it can, within reason, to accomplish it.
- (b) Accept the Department's position on recommendations 9 and 11.

4. Special attention is directed to:

- (a) Auditor General's comments on page 5.
- (b) Officers' Fund inventory losses due partly to burglaries as noted

on pages 8-9.



END